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C O N F I D E N T I A L SECTION 01 OF 02 TOKYO 002393

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TAGS: [ECON](#) [EFIN](#) [JA](#) [PGOV](#)
SUBJECT: CORRECTED COPY: 11 TRILLION YEN ECONOMIC PACKAGE:
REAL WATER RUNS SHALLOW

REF: TOKYO 02134

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Classified By: Charge d'Affaires James Zumwalt, reasons 1.4 b and d

¶1. (C) Summary. One of the last acts of the Fukuda Government before the Prime Minister's surprise resignation September 1 was the announcement of a stimulus package designed to meet public concerns over the stagnating economy and rising food, fuel, and other prices. Initial assessments are the package would not have a significant economic impact, but was designed to build electoral support. The stimulus package,s headline numbers amount to 11.7 trillion yen (\$106 billion), but newly committed spending amounts to only 2.8 trillion yen (\$25.5 billion). Finance Minister Ibuki pledged September 2 that the government will compile the package despite Prime Minister Fukuda,s resignation. End summary.

Headlines and Details Not Congruent

¶2. (SBU) In an effort to address public concerns regarding soaring commodity prices and downturn in the economy, the Fukuda Cabinet adopted a 11.7 trillion yen (\$106 billion, or 2.3% of GDP) economic policy package August 29. The Prime Minister announced his surprise resignation the evening of September 1 (septel), making the package one of his government,s last initiatives.

¶3. (SBU) The package,s overall headline figure comprises 2.6 trillion yen (\$25 billion) in fiscal spending measures plus another 9.1 trillion yen (\$82 billion) in increased outlays via beefing up government loan-guarantee programs. The additional demand created by the package, the so-called "mamizu" or real water fiscal stimulus, falls far short of the headline figure. FINATT estimates the real water component of the package at about 2.8 trillion yen (\$25 billion), or 0.5% of GDP.

¶4. (SBU) At the same time, ruling coalition policy makers agreed to implement one year cuts in individuals, income taxes by the end of March 2009. The specifics, including the actual size of the cuts in individual income taxes, were to be decided in the process of deliberating FY2009 tax change proposals in December. The stimulus package,s headline figure, therefore, does not include the proposed tax cut, although the commitment to the cuts was included in the package.

¶5. (C) In this, the first comprehensive economic policy

package since December 2002, proposed policy measures range widely from a cut in the highway toll to preventative measures against new types of influenza. The centerpieces of the package are commitments to help small and medium sized enterprises (SMEs) obtain loans from financial institutions, and provide them government subsidies to deal with surging commodity prices. In a surprise to many observers, the package did not include explicit pork-barrel public works spending, an apparent victory for the budget hawks in this Fukuda Cabinet.

Financing the Economic Package

16. (C) New spending measures promised in the economic package will be financed mainly by a supplemental budget for FY2008 and the regular budget for FY2009. The Fukuda Cabinet planned to submit the supplemental budget to the extraordinary Diet session that observers expected to start in September with the FY2009 regular budget to be decided in late December, and submitted to the ordinary Diet session in January 2009. Plans for the stimulus package, like those for other legislation, were thrown into confusion with Fukuda,s resignation. The identity of Fukuda,s successor, the composition of the Cabinet, and the timing of new elections are all questions clouding the future of the package. However, Finance Minister Ibuki pledged September 2 the GOJ will compile the package despite the Prime Minister,s resignation.

Prime the Pump or Hold the Line?

17. (C) Some of the problems Fukuda,s Cabinet faced will be those that will confront the new prime minister as well. In formulating the economic policy package, the Fukuda

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administration faced a dilemma. The government was succeeding in promoting fiscal consolidation through cuts in government spending to achieve a government primary surplus by FY2011. A large economic stimulus package were financed by accommodating calls from ruling coalition politicians could derail this fiscal consolidation effort. Yet without meaningful fiscal spending, additional demand generated by the package will be limited. The package,s text suggested the GOJ was intent on maintaining the fiscal consolidation objective. However, if the proposed individual income tax cuts are financed by additional government bonds, concerns will emerge regarding fiscal discipline.

Package Highlights

18. (C) The package consists of three categories: 1) measures to ease public unease in the face of soaring commodity prices; 2) measures to help accelerate reforms for creating a "sustainable society"; and 3) measures to facilitate adoption of new price systems and strengthening growth potential. Within the three categories are numerous items, presumably designed to appeal to most sectors of the electorate: lower expressway tolls at night to cut transport costs, support for a number of industries (trucking, domestic shipping, construction), new credit guarantees for small and medium sized businesses, extended housing loan cuts, expanded loans to low-income earners and single-parent families, improved medical services for the elderly, support for construction of day nurseries and kindergartens, and movement to expedite the introduction of energy-conserving facilities, to name just a few.

It,s the Election...

18. (C) Analysis: While expectations rose prior to the package,s announcement that its details might reveal a new bias toward priming the economic pump at the expense of fiscal consolidation, the package showed the ruling party,s ultimate aim was to position itself for the upcoming elections while showing the voters that they and the GOJ are

sensitive to, if not actually resolving, increasing anxieties regarding every day economic issues. "More so than raising GDP, what the LDP really wants to raise is its approval rating," commented Barclays Chief Economist Kyohei Morita. Societe General Chief Asia Economist Glen Maguire stated, "I think unfortunately we're seeing the political cycle have prevalence over the economic cycle at this stage." Richard Jerram of Macquarie added to the emerging consensus, "(W)ith an election due in the next year, and with the government's support ratings so low, Fukuda needs to be seen to be doing something," although in PM Fukuda's case it appears to have come too late. End analysis.

ZUMWALT